



***Department of the Navy
Managers' Internal Control (MIC) Program
and practical application
Hurricane Katrina Response***

ASMC PDI
June 2006

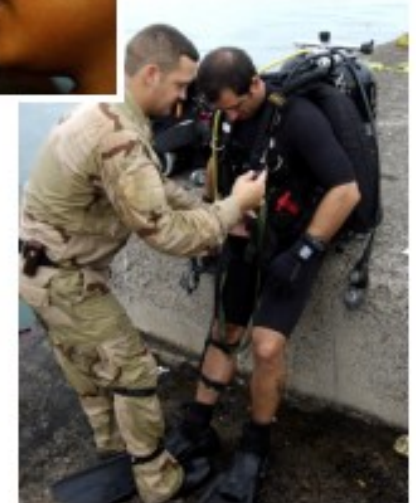
Agenda

- Overview of Managers' Internal Control Program
- Major Changes from New Guidance
- Federal Managers' Financial Integrity Act (FMFIA) Overall Process
- FMFIA Over Financial Reporting Process
- DON Hurricane Katrina Response

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires internal controls across all Federal agencies.

- Internal accounting and administrative controls shall be established and shall provide reasonable assurances that:
 - obligations and costs are in compliance with applicable law
 - resources are safeguarded against waste, loss, unauthorized use, or misappropriation
 - revenues and expenditures are properly recorded

The Managers' Internal Control Program is about more than simply complying with a federal statute.



New guidance has been issued to improve the implementation of FMFIA.

- Finalized DoD Instruction 5010.40
 - Signed out by OUSD(C) on 4 January 2006
 - Available at:
 - <http://www.dtic.mil/whs/directives/corres/html/501040.htm>
- DRAFT SECNAVINST 5200.35E
 - Outlines internal control policy and responsibilities for the DON
 - Final coordination process has ended
- DRAFT SECNAV M-5200.35
 - SECNAV Manual – Managers’ Internal Control Manual (formerly known as the DON MIC Implementation Guide)
 - Clarifies specific processes and submissions
 - Final coordination process has ended

The new guidance includes significant changes to the Manager's Internal Control program.

- Terminology
 - Management Control Program (MCP) to Managers' Internal Control (MIC) Program
- Emphasis on Senior Leadership Involvement
- Establishment of two distinct, but related processes
 - FMFIA Overall
 - FMFIA Over Financial Reporting

New roles were established for senior managers to emphasize senior leadership involvement.

- Assessable Unit Manager – the head or deputy of the major assessable unit, with accountability for maintaining internal controls
- Senior Accountability Official – responsible for the correction of a specific material weakness
- Senior Management Council (SMC) – tasked to provide oversight of the FMFIA Overall Process and assist in the identification of internal control deficiencies that merit reporting as material weaknesses
- Senior Assessment Team (SAT) – tasked to oversee the assessment and documentation of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A

A distinct, but related process was added to the FMFIA Overall Process to focus additional attention on controls over financial reporting.

- FMFIA Overall Process
 - Program, Operational and Administrative controls
- FMFIA Over Financial Reporting Process
 - Financial Reporting controls
- One Document, Two Statements
 - Statement for FMFIA Overall
 - Statement for FMFIA Over Financial Reporting

The FMFIA Overall Process continues to develop a strong control environment for all program, operational and administrative controls by:

- Identifying risks to our resources, our mission and our image
- Developing internal controls to mitigate those risks
- Assessing whether the internal controls achieve their intended objectives;
- Identifying potential internal controls deficiencies;
 - ° Material Weaknesses, Reportable Conditions and Items to be Revisited
- Outlining plans and schedules to promptly correct them; and
- Reporting reasonable assurance over internal controls (excluding internal controls over financial reporting)
 - ° Unqualified, Qualified or No Assurance

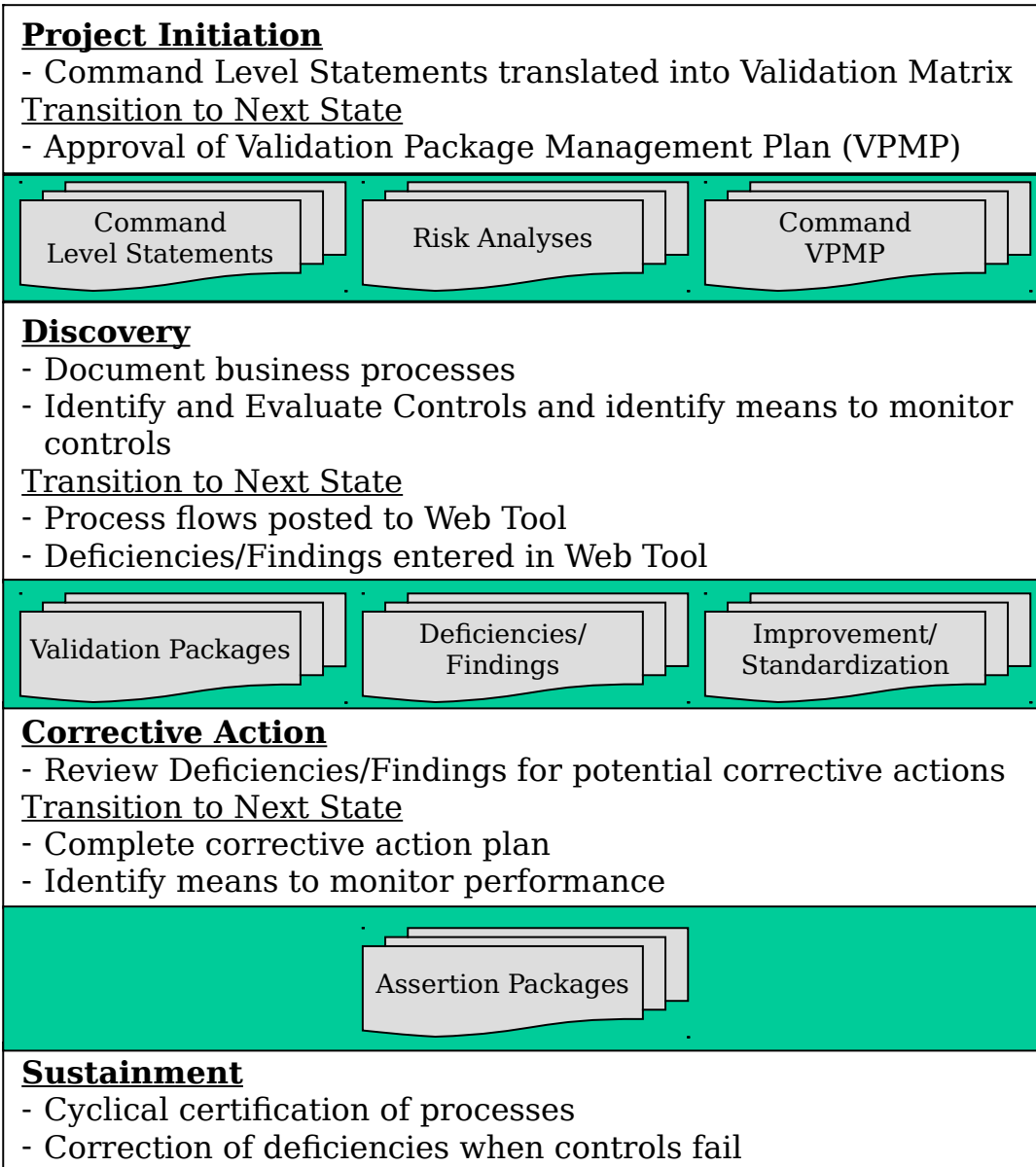
The ASN(FM&C) implemented a quarterly MIC review to monitor progress on reported material weaknesses and to identify potential future material weakness.

- New level of coordination with Naval Audit Service (NAVAUDSVC)
 - ° Intended to involve senior management throughout the year, not just before the Annual SOA is prepared
- The Office of Financial Operations and NAVAUDSVC staff review audit reports that have been released in the previous quarter
- Auditor General and Director, Office of Financial Operations present issues to ASN(FM&C)
 - ° Follow-up of current issues to help ensure corrective actions are being performed in a timely manner
 - ° Notification of new issues keeps senior level leadership apprised of potential control deficiencies

FMFIA Over Financial Reporting focuses on developing controls to improve the reliability of information reported on financial statements.

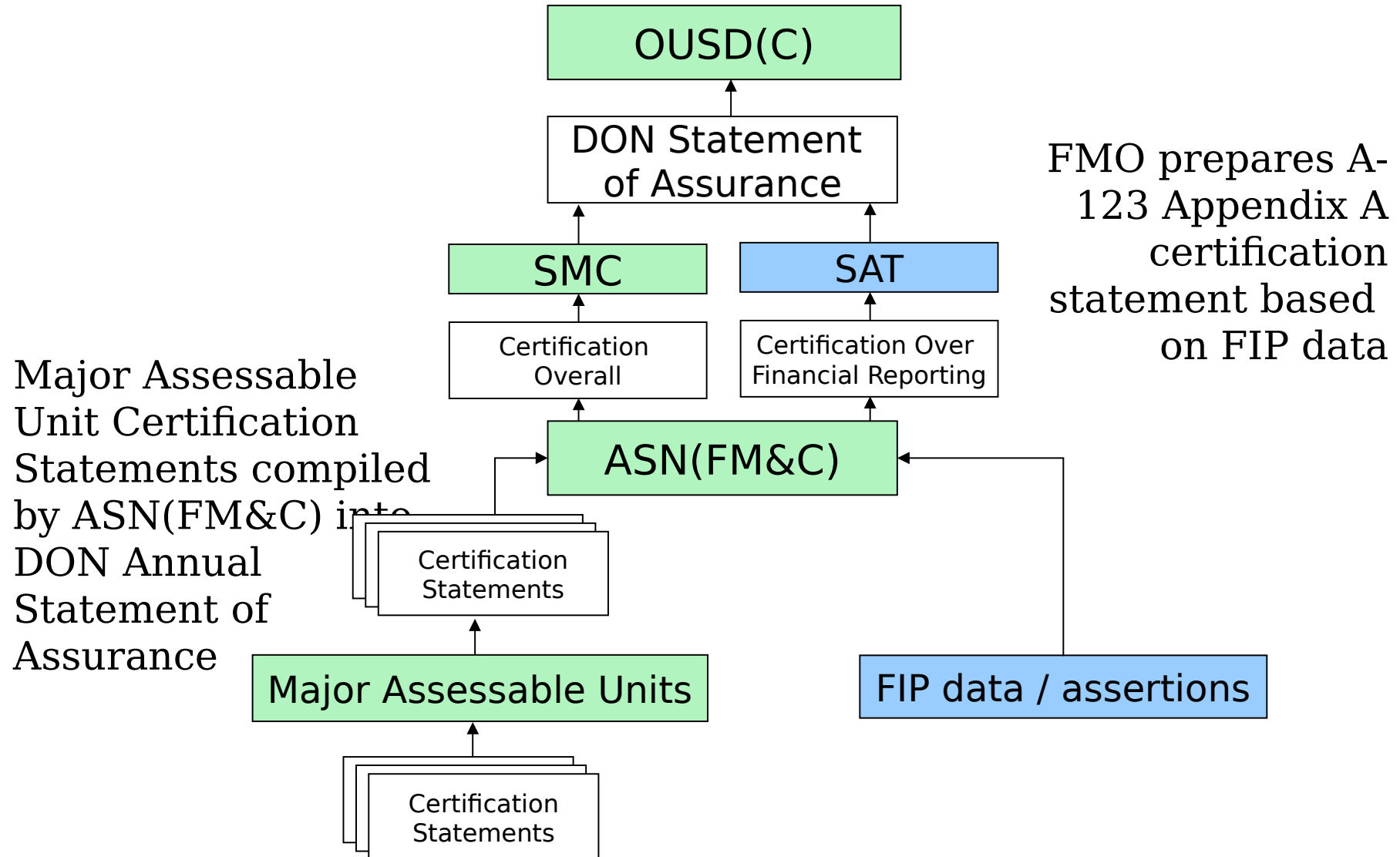
- Department of Defense Requirements for OMB Circular A-123 Appendix A
 - Identify Key Business and Financial Reporting Processes
 - Prepare:
 - Process Flow Charts, Process Narratives and Organizational Charts
 - Risk Assessments
 - Internal Control Assessments
 - Test Plans
 - Corrective Action Plans
 - Establish a Senior Assessment Team (SAT)

FMFIA Over Financial Reporting is closely aligned with the DON's Financial Improvement Program (FIP).



From a command perspective, the DON FIP requires documentation of processes and correction of deficiencies. DON FIP management expects individual commands to assert their own financial processes and data, between 2006 and 2012.

Certification statements over both processes form the basis for the DON Statement of Assurance.



OMB Circular A-123, Appendix A requires several deliverables throughout the year to support the control environment of FMFIA over Financial Reporting.

OUSD(C) Due Date	Deliverable
20-Dec-05	Process Narratives, Flow Charts, and Organizational Charts for the Assigned Focus Areas
1-Feb-06	Risk Analyses for Assigned Focus Areas
20-Mar-06	List of Internal Controls and Test Plan Methodology, FISMA Reports
1-May-06	Formal Test Plan
30-Jun-06	Internal Control Review Reports (including Control Analyses)
30-Jun-06	All Corrective Action Plans Entered into DoD Financial Improvement Tool
1-Sep-06	Department of the Navy Statement of Assurance on Internal Controls over Financial Reporting

Internal Controls are part of our everyday business; it's who we are and how we accomplish our mission.



Hurricane Katrina revealed financial internal control weaknesses in our ability to respond to emergencies.



Hurricane Katrina
Landfall
29 August 2005

Cost Accounting
Guidance Issued
23 September 2005

Reimbursable Billings
Sent to FEMA
Mid-October 2005

DON Controlled
FEMA Charge-backs
March 2006

First Katrina Financial
Management Meeting
06 September 2005

DFAS Reports
Released
04 October 2005

Charge-backs
Requested by FEMA
February 2006

There is a well defined incident management structure in place at the Federal level.

- National Incident Management System
- National Response Plan
- Principal Federal Official (FEMA for natural disasters) appointed after Presidential declaration
- FEMA has authority to request assistance, via Mission Assignment, from DoD (and other Federal agencies) under the Stafford Act
- Defense Coordinating Officials co-located with FEMA regions
- Specific DoD units tasked/ordered/assigned to assist after NORTHCOM matches identified requirement to unit capability

DON received four different sources of Hurricane Katrina funding that total over \$550M.

- Direct DoD/DON appropriations to protect DON personnel and recover from damages to DON bases (approx \$470M obligated)
- Bulk FEMA Mission Assignments provided to DoD and then sub-allocated to DON (approx \$65M obligated). Examples include search and rescue operations, provision of food and water, logistics support
- Specific FEMA Mission Assignments provided directly to DON commands. An example is ONR providing water purification units to medical facilities
- Intra-DoD orders to NEXCOM to provide recovery kits; and orders from the US Coast Guard to NAVSEA

Pre-Katrina, internal control points within basic business processes used to support contingency operations were lacking; significant strides in standardizing cost accounting and reporting have since been made.

- Standard cost structure
 - F/SF code for STARS-FL with subsidiary Cost Account Codes for line item cost identification
 - Unique Project Units within LOA for STARS-HCM (no line item cost identification)
 - USMC uses SABRS Special Interest Codes with subsidiary Cost Account Codes for line item cost identification
- Standard cost and reimbursable execution reporting provided by DFAS
- Significant experience gained by FMO, FMB, LANT, PAC, CNI, and DFAS staff from the Katrina experience
- Key elements must include clear written guidance, well documented standard processes, automated systems support, and audit trails supported by source documents

Multiple organizations are involved and assisting the DON's standardization efforts.

- Multiple audits and reviews underway (GAO, DoD IG, NAS, other Federal IGs) due to intense Congressional interest in FEMA
- DCFO sponsored FEMA Billing Workgroup led by DFAS-Indy
- DON Financial Improvement Plan
- DFAS-CL review of E2E reimbursable billing process
- Development of DoD Defense Support of Civilian Authorities Handbook. NORTHCOM leading effort with Service participation
- Development of DON "Disaster" SOP
- Potential use of Disaster accounting structure for Global War on Terrorism reporting
- Multiple DFAS teams assisting DON with FEMA billing clean-up

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http://www.fmo.navy.mil/mic/home_index.htm